

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE PETITION OF SIGMA GAS CORPORATION)	
FOR APPROVAL OF A CERTIFICATE OF)	CASE NO.
CONVENIENCE AND NECESSITY TO CONSTRUCT)	94-435
FACILITIES AND APPROVAL OF FINANCING)	

O R D E R

On November 9, 1994, Sigma Gas Corporation ("Sigma") filed with the Commission its application seeking authority to borrow \$647,198 from the Department of Local Government ("DLG") and for a Certificate of Convenience and Necessity to construct certain natural gas distribution facilities in Magoffin County, Kentucky.

Sigma amended its application on April 9, 1995 to seek authority to borrow an additional \$156,821 from DLG, bringing the total financing to \$804,019. Both notes would be secured by a lien on the assets of the system. The \$647,198 note would bear interest at 4 percent per annum over a 30 year period while the \$156,821 note would bear interest at 5 percent per annum over the same period.

The proceeds of the DLG loans would be used to finance construction estimated to cost \$632,671. The remainder would be used to refinance a \$171,348 10 year note to The Bank Josephine at a variable interest rate that was 7 percent per annum at filing.

Sigma provided various analyses to support its application. It stated that there are approximately 500 potential customers in

the service area¹ and that the Company expects to add at least 250 customers initially.² Sigma indicates that its rates will be sufficient to cover its cost of service.

Sigma experienced a net loss of \$58,914 for calendar year 1994. On June 27, 1995, Sigma filed documentation regarding its ability to service the DLG notes and reverse its current operating loss. It asserted that through system adjustments and changes in the method and need for many operational and maintenance functions, its cost savings will offset the increased cost of service from the additional debt and new customer load.

DLG has approved Sigma's application for financing the construction project and refinancing existing debt. To repay the debt while providing safe, adequate, and assured service at reasonable rates to its customers, Sigma must aggressively seek new customers and serve them at relatively little cost.

Engineering and Gas Supply Issues

In its amended application, Sigma proposes to construct 13.5 miles of pipeline along Highways 114 and 1427. The final 3.5 miles would be constructed along Highway 1427 through the Abbott Creek area to connect with Auxier Road Gas Company ("Auxier Road") facilities. The \$632,671 construction estimate submitted by Sigma includes costs for pipe and installation; customer connections;

¹ Response to Item 1 of the Commission's February 10, 1995 Order.

² Response of Sigma to Item 2 of the Commission's May 24, 1995 Order.

appurtenances for Sigma's city gate on the proposed pipeline; contingencies; and legal and engineering services.

The construction will provide Sigma access to a more reliable and adequate supply of gas. Two interstate pipeline systems, Columbia Gas Transmission Company ("CGTC") and Kentucky West Virginia Gas Company ("Kentucky West"), are currently connected to Auxier Road. Sigma has submitted a copy of its contract with Alliant Gas Services, Inc., which will purchase gas for Sigma and transport it through CGTC to Auxier Road for delivery to the proposed pipeline.

Sigma has submitted pipeline pressure information for the proposed pipeline, the Auxier Road system, and the interconnection points with CGTC and Kentucky West. According to Sigma, the CGTC tap can furnish the peak system needs of both Auxier Road and Sigma at 925 Mcf per day at an inlet pressure of 55 psig at the CGTC/Auxier Road interconnect.

However, the "inlet pressure" is limited to the Maximum Allowable Operating Pressure ("MAOP") of the Auxier Road system, which is 50 psig, not 55. Nonetheless, based upon the information presented by Sigma June 27, 1995, the peak days needs of both Sigma and Auxier Road - 925 Mcf presently - can be delivered through Auxier Road by reestablishing its MAOP to 55 psig or above in compliance with Commission regulations or by utilizing both of its pipeline interconnections to bring gas into its system at the same time. Auxier Road has gas transportation contracts with both CGTC and Kentucky West which can be used in this manner.

The Commission, after consideration of the evidence of record and being otherwise sufficiently advised, finds that:

1. The proposed loans from DLG are for lawful objects within the corporate purposes of Sigma, are necessary and appropriate for and consistent with the proper performance by Sigma of its service to the public, and will not impair its ability to perform that service.

2. The proceeds from the proposed loans should be used only for the lawful purposes set out in Sigma's application.

3. Sigma should be granted a Certificate of Convenience and Necessity to construct the proposed pipeline as it will provide Sigma access to a more reliable and adequate gas supply and provide Sigma the opportunity to add new customers which is important for its future economic well-being.

IT IS THEREFORE ORDERED that:

1. Sigma be and it hereby is authorized to borrow \$647,198 from DLG for a 30-year period bearing interest at 4 percent per annum for the purposes set out in its application.

2. Sigma be and it hereby is authorized to borrow \$156,821 from DLG for a 30-year period bearing interest at 5 percent per annum for the purposes set out in its application.

3. Sigma shall file a copy of the loan release from The Bank Josephine within 10 days of its receipt.

4. Sigma is hereby granted a Certificate of Convenience and Necessity to construct the proposed pipelines and related facilities referenced herein.

5. Sigma shall file with the Commission a copy of the final construction contract and the construction schedule no later than 15 days prior to the commencement of construction.

6. Sigma shall file with the Commission the actual cost of the construction and as-built drawings of the system no later than 3 months from the date of completion of the work.

Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

Done at Frankfort, Kentucky, this 22nd day of August, 1995.

PUBLIC SERVICE COMMISSION

Chairman

Robert M. Davis
Vice Chairman

Linda K. Breathitt
Commissioner

ATTEST:

Don Mills
Executive Director